

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0799-01
Bill No.: HB 175
Subject: Revenue Dept.; Taxation and Revenue-General and Income
Type: Original
Date: January 10, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$95,506)	(\$20,492,955)	(\$20,695,279)
Total Estimated Net Effect on <u>All</u> State Funds	(\$95,506)	(\$20,492,955)	(\$20,695,279)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration (COA) - Budget and Planning (BAP)** state this proposal would exempt the first \$250 of interest income from Missouri's individual income tax.

BAP staff states that in tax year 1998, 1,320,196 Missouri tax returns reported taxable interest of \$3,544,162,000 for an average of \$2,685 of interest income per return according to the Spring 2000 Statistics of Income published by the IRS. Since the average interest income per return is well above \$250, it is assumed that every return would take the full \$250 exemption. A 6% marginal rate was assumed. The number of returns was assumed to grow one percent annually.

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction in determining Missouri adjusted gross income for the first \$250 of interest income.

According to the Spring 1999 Federal Statistics of Income Bulletin, there are 1,320,665 Missouri taxpayers with taxable interest reported on the federal return. The Division of Taxation also indicates there are 30,000 S corporations that will also be eligible for this deduction. The Division of Taxation will need ten Tax Season Temporary employees, one for every 130,000 returns filed with this deduction. The number of errors and pieces of correspondence generated from this deduction is unknown at this time. The Division will need one Tax Processing Tech I for every 30,000 errors and one Tax Processing I for every 3,000 pieces of correspondence received, and will request these FTE through the normal budget process.

This legislation will require modifications to the individual and corporate income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,730 hours of contract labor, a cost of \$57,713. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$11,258 is requested for implementation costs. Modifications to tax returns and schedules will be completed with existing resources.

Oversight, for purposes of this fiscal note, has allowed the 10 temporary employees, but assumed the Division of Taxation could handle the programming provisions of this proposal utilizing 260 hours of overtime at a cost of \$8,674. In addition to the programming changes, Oversight has allowed \$11,258 in funding for State Data Center charges.

This proposal would result in a decrease in Total State Revenues.

FISCAL IMPACT - State Government

FY 2002
(6 Mo.)

FY 2003

FY 2004

GENERAL REVENUE FUND

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
<u>Loss to General Revenue Fund</u>			
Interest Income Exemption	\$0	(\$20,400,000)	(\$20,600,000)
<u>Cost to General Revenue Fund - Department of Revenue (DOR)</u>			
Personal Service (10)	(\$66,474)	(\$71,094)	(\$72,871)
Fringe Benefits	(\$17,774)	(\$21,861)	(\$22,408)
Expense and Equipment	<u>(\$11,258)</u>	<u>\$0</u>	<u>\$0</u>
Total Administrative <u>Costs</u> DOR	<u>(\$95,506)</u>	<u>(\$92,955)</u>	<u>(\$95,279)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$95,506)</u>	<u>(\$20,492,955)</u>	<u>(\$20,695,279)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill exempts the first \$250 per year of interest income received by a taxpayer from the individual income tax.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

KS:LR:OD (12/00)

Office of Administration
Budget and Planning
Department of Revenue

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA
Director
January 10, 2001